

**REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE DR JS MOROKA LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the Dr JS Moroka Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for the additions made to infrastructure to the value of R9 612 758 as disclosed in note 4 to the financial statements. I was unable to confirm the additions by alternative means, as the municipality's records did not permit this.
7. I was unable to obtain sufficient appropriate audit evidence to support other assets to the value of R5 903 703 as disclosed as part of property, plant and equipment in note 3 to the financial statements. I was unable to obtain the evidence by alternative means, as the municipality's records did not permit this.
8. Consequently, I was unable to determine whether property, plant and equipment was fairly stated.

Investment property

9. The municipality did not recognise the fair value adjustment on investment property in accordance with GRAP 16, *Investment properties*. A fair value adjustment of R13 202 591 is disclosed in note 3 to the financial statements. The fair value adjustment did not take the current market conditions at year-end into account. Consequently, I was unable to determine whether adjustments to investment property and fair value adjustments to other financial assets were necessary.

Cash and cash equivalents

10. I was unable to obtain sufficient appropriate audit evidence for reconciling items for the cash and cash equivalent amounting to R4 177 364 as disclosed as part of cash and cash equivalents in note 11 to the financial statements. I was unable to confirm the reconciling items by alternative means. Consequently, I was unable to determine whether the cash and cash equivalent as disclosed in the note to the financial statements was fairly stated.

Expenditure

11. The municipality did not have systems to ensure that expenditure transactions were properly recorded. Some transactions recorded in the accounting records of the municipality related to property, plant and equipment and others were recorded inclusive of value-added tax. Consequently, expenditure relating to repairs and maintenance is overstated.

Payables from exchange transactions

12. The municipality did not have adequate systems to maintain accurate records of retention monies held included in trade payables. The disclosed amounts did not agree to the listings provided, which resulted in trade payables being overstated by R11 415 913. Consequently, I was unable to determine whether any further adjustments to trade payables stated at R20 385 854 in note 15 to the financial statements were necessary.

Commitments

13. The municipality did not disclose commitments in the notes to the financial statements, as required by paragraph 121 of GRAP 1. Unrecognised contractual commitments amounting to R11 277 013 were identified during my audit. I was unable to obtain sufficient audit evidence to confirm the completeness of unrecognised contractual commitments and I was unable to perform alternative procedures.

Irregular expenditure

14. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure amounting to R17 099 881 as disclosed in note 40 to the financial statements, due to a limitation placed on the auditing of procurement. Irregular expenditure was identified during my audit.

Distribution losses

15. Section 125(2)(d)(i) of the MFMA requires the municipality to disclose the particulars of any material losses in the notes to the financial statements. The municipality disclosed material losses of R50 656 169 in note 41 to the financial statements. I was unable to determine the total extent of the understatement of distribution losses, as sufficient appropriate audit evidence could not be obtained. I was unable to confirm this through alternative means. Consequently, I was unable to determine whether any adjustments to distribution losses as disclosed in financial statements were necessary.

Qualified opinion

16. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Dr JS Moroka Local Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

18. The municipality impaired consumer debtors of R124 297 345 at 30 June 2013 that had been outstanding for more than 12 months. The recoverability of these amounts is doubtful.

Restatement of corresponding figures

19. As disclosed in note 34 to the financial statements, the corresponding figures for 2012 were restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material underspending of the conditional grant

20. As disclosed in note 13 to the financial statements, the municipality materially underspent the budget on conditional grants by R85 483 640. As a consequence, the municipality did not achieve its objectives of providing basic services to indigent community members.

Material losses

21. As disclosed in note 41 to the financial statements, material losses of R50 656 169 were incurred as a result of water losses.

Additional matter

22. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary information

23. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

24. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

25. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
26. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.
27. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
28. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
29. The material findings are as follows:

Usefulness of information

Presentation

30. Section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for 39% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of review and monitoring of compliance with laws and regulations.

31. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 39% of the measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures.
32. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Consistency

33. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 62% of the reported objectives, indicators and targets were not consistent with the objectives, indicators and targets as per the approved integrated development plan. This was due to the limited review and monitoring of the completeness of reporting documents by management, the audit committee and the internal audit unit.

Reliability of information

34. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets with respect to basic service delivery and infrastructure were not reliable when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements.
35. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to basic service delivery and infrastructure was not reliable when compared to the evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements.

Compliance with laws and regulations

36. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements, performance report and annual report

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

38. The annual report for the year under review did not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, an assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote, and particulars of any corrective action taken or to be taken in response to issues raised in the audit report, as required by section 121(3)(e), (f) and (g) as well as 121(4)(c), (e) and (g) of the MFMA.
39. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

Asset and liability management

40. An effective system of internal control for assets (including an adequate asset register) was not in place throughout the year, as required by section 63(2)(c) of the MFMA.
41. An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2)(a) of the MFMA.

Revenue management

42. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

Expenditure management

43. Reasonable steps were not taken to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Human resource management and compensation

44. The acting municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
45. An acting municipal manager was appointed for more than six months, in contravention of section 54A(2A) of the MSA.

Internal audit

46. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Consequence management

47. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
48. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Procurement and contract management

49. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded in accordance with the legislative requirements and a procurement process that is fair, equitable, transparent and competitive, as not all contracts were made available for auditing.
50. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R200 000 had been procured by means of obtaining the required price quotations, as required by Supply Chain Management (SCM) Regulation 17(a) and (c).
51. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value above R200 000 had been procured by means of inviting competitive bids or that the accounting officer had approved deviations only if it was impractical to invite competitive bids, as required by SCM Regulations 19(a) and 36(1).
52. Sufficient appropriate audit evidence could not be obtained that bid specifications for the procurement of goods and services through competitive bids had been drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM Regulation 27(2)(a).
53. Sufficient appropriate audit evidence could not be obtained that bid specifications had been drafted by bid specification committees composed of one or more officials of the municipality, as required by SCM Regulation 27(3).
54. Sufficient appropriate audit evidence could not be obtained that the preference point system had been applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and SCM Regulation 28(1)(a).
55. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded to only providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.
56. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded only to bidders who had submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

Strategic planning and performance

57. The municipality did not have and maintain effective, efficient and transparent systems of financial and internal controls, as required by section 62(1)(c)(i) of the MFMA.

Internal control

58. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 59. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
- 60. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
- 61. The accounting officer did not communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

- 62. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- 63. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
- 64. Management did not review and monitor compliance with applicable laws and regulations.

Governance

- 65. No approved fraud prevention plan was in place for the period under review.

OTHER REPORTS

Investigations in progress

- 66. There are ongoing investigations regarding alleged irregularities and fraudulent activities. These investigations had not been concluded at the date of this report.

Auditor-General

Nelspruit

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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